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Faculteit der Economische Wetenschappen en Econometrie

SERIE RESEARCH MEMORANDA

The Future of Finance: Results of a European Survery

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Dianne Potters

Research Memorandum 1998-50 A

Oktober 1998

vrije Universiteit amsterdam

THE FUTURE OF FINANCE

RESULTS OF A EUROPEAN SURVEY

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1 INTRODUCTION

*It's the business **of** the future to be dangerous*
A. N. Whitehead

ASK ANY KNOWLEDGEABLE MAN ABOUT THE FUTURE OF FINANCIAL SERVICES and the reply will be that the financial services sector will never be the same again. Arguments will include globalisation that introduces new competitors, the emergence of new distribution channels, like the Internet, and the ever-increasing speed of new product introductions. We all know that this is generally what is happening but do we know exactly what the current status is?

In our research we investigated what is currently going on and what financial services institutions managers believe to be the changes of the future. We used two sources of data: a literature study and a survey completed by more than 70 General Managers and IT Managers from European financial institutions including The Netherlands, Belgium, France, Germany, Norway, Sweden, The United Kingdom and Spain.

This report does not claim to be a comprehensive treatment of trends and developments in the entire finance industry, instead it attempts to highlight certain interesting topics. The primary focus being on the business-to-consumer marketplace.

CHAPTER OVERVIEW

The summaries are as follows:

[1] **COMPETITIVE ADVANTAGE:** provides information on the aspects on which competition will focus in the future. For example trust, in many cases enhanced by expensive branch offices, appears to have been replaced by service and accessibility as the main competitive factors.

[2] **DISTRIBUTION CHANNELS:** provides us with insight into changes within financial services distribution. New channels, such as the Internet and off-site banking are emerging. Will they be the future of financial services?

[3] **COMPETITION:** Globalisation, deregulation and the emergence of a single European market increase competition for existing players in the marketplace. Moreover, new entrants are penetrating the market. On the one hand they use the new (Internet-) economy to create new product offerings and, on the other hand, they build on their existing brand and customer relations to add financial services to their product portfolio. Will these new entrants pose real threats?

[4] **ORGANISATIONAL CHANGE:** in order to compete, existing financial services institutions will have to change. New capabilities, new information systems and new products are some of the changes that may need to be implemented. What do participants believe to be the most likely changes?

The data analysis collection provides valuable information for anyone interested in the future of finance, a future that, according to our research, will definitely be cha1lenging.m

EXECUTIVE SUMMARY 1

THE RESEARCH HAS INVESTIGATED WHAT IS CURRENTLY GOING ON IN THE FINANCIAL services industry and what financial services institutions managers believe to be the changes of the future. It uses two sources of data: a literature study and a survey completed by more than 70 Genera1 Managers and IT Managers of financial institutions across Europe, representing the Netherlands, Belgium, France, Germany, Norway, Sweden, the United Kingdom and Spain. 69 percent of participants are managers of banks or their subsidiaries, 31 percent of participants are managers of insurance companies. The report discusses trends and developments along four topics: Competitive advantage, Distribution channels, Competition, and Organisational change.

COMPETITIVE ADVANTAGE

- Changes in the factors that provide competitive advantage are directly related to changes in customer demand. Customers have become selective in their choice of products offered by banks and insurance companies. They are no longer customers for life and will not automatically accept what their bank can deliver.
- According to the participants, main future sources of competitive advantage are:
  [I] Ability to tailor financial services to the individual (75%)
  [2] Accessibility / availability (anytime, anywhere, anyhow) (68%)
  [3] Pricing / rates (50%)
  [4] Branding (44%)
  [5] Detail and depth of product portfolio (38%)
  [6] Combinations of financial and non-financial services (35%)
- Current institutions are strong on the aspects ranked fourth and fifth: they have built up trust over many years and have refined their product offerings. However, as the survey shows, these factors may not provide a winning combination for the next century.
- Customers of different ages value accessibility differently:

age group	*90 wanting 24 hour banking access*
18-34	*82%*
35-49	*64%*
50-64	*40%*
65+	*27%*

- Developing new channels that provide 24 hour access means less for the older generation, but is absolutely necessary in order to attract the younger generation.

CONCLUSION

Changes in customer demands require traditional players to react quickly. Whilst they may be hampered by existing investments in distribution channels they must invest in new channels in order to attract new customers. The advantage of being the first Internet-based financial services provider is that large numbers of new customers will be acquired and they will remain loyal.

DISTRIBUTION CHANNELS

- More than 70% of the survey participants believe that the Internet will be one of the three most important distribution channels.
- Both households that are using Internet banking and banks that have an Internet presence are rapidly growing. Whilst Internet banking means ease of use and high availability for customers, it can bring financial institutions direct cost savings: transaction costs for the Internet are estimated to be US$0.01 to US$O. 13 versus US$1.08 for a branch.
- Currently, according to the participants in the survey, there are hardly any financial services institutions that provide Internet banking.
- The overall view indicates that the number of distribution channels employed by financial institutions is growing. This means that complexity and cost levels are rising, creating opportunities for new entrants that employ less channels and deliver at lower prices.
- It is intriguing to see that most branch networks will remain: financial institutions appear to obtain added value from these networks.
- Channels that will flourish are those that will improve the accessibility of the financial services institutions.

CONCLUSION

Over the next few years the number of distribution channels operated by financial services institutions will grow, New physical as well as virtual channels will be developed. These channels may differ in terms of the customer groups they attract. The deployment of multiple channels may raise the cost level of distribution creating opportunities for new providers.

COMPETITION

- The traditional financial services sectors are competing more and more in the same markets and offering similar products.
- A gradual liberalisation and a greater transparency of the markets, together with the collapse of significant entry barriers, have facilitated the entry of non-traditional financial services providers.
- Many new entrants into the financial services industry are not aiming to offer a full range of financial services, but are, instead, positioning themselves as specialised providers.
- According to the participants, there will be an increase in competition from European financial institutions, retail organisations, and global financial institutions.
- With regard to new 'virtual' entrants, 58% of participants believe that new entrants can enter the market within 2 years.
- According to the participants, main barriers to entry are:
  [1] Development of brand name and trust (72%)
  [2] ICT infrastructure (30%)
  [3] Development of an appealing service concept / product range (25%)
- Whilst 58% of participants believe that new entrants can enter the market within 2 years, 72% think it will take new entrants two to five years or even longer to become a serious competitive threat

CONCLUSION

Financial services competition will definitely increase. The barriers to entry are lowered, making it possible for many parties to enter the market. Starting as single-product companies, new entrants are able to provide a superior offer in order to attract customers. Once the customers are on board, they can then broaden their product range in order to entice business away from existing financial institutions.

ORGANISATIONAL CHANGE

- Organisations must change in response to developments in the marketplace. All aspects of the organisation may be subject to change due to new services and distribution channels.
- According to the participants, major obstacles to the implementation of necessary change are:
  [1] Transformation of the organisation (74%)
  [2] ICT Infrastructure (55%)
  [3] Lack of resources due to Y2K and euro (48%)
  [4] Corporate strategy and decision making (4 1%)
  [5] Knowledge / skills / experience (39%)

- 76 percent of participants think it is only possible to base their future financial service offering on their existing ICT infrastructure with adjustments, whilst 8 percent think it will not be possible at all.
- Within 2 years:
  - 71% expect to be able to introduce new distribution channels.
  - 45% expect to be able to adjust the services to meet new demands.

Conclusion

Organisational change will prove to be the major challenge for existing financial institutions. Rapid implementation of change is needed in order to avoid losing market share to new entrants and US financial institutions penetrating the market.

Final conclusion

The financial services industry is on the brink of a new era. Changes are underway to redefine the entire industry. Globalisation, the emergence of new distribution channels, and changing customer preferences are just a few of the changes that reshape finance. New positions will be established, new players will emerge and existing organisations are likely to decline. There are abundant opportunities for those who understand and can implement the necessary changes. Every financial institution must reinvent itself in order to find a place in this new industry. We are about to experience a transformation that the financial services industry has not experienced before... ■

Competitive Advantage

Changes in the factors that provide competitive advantage are directly related to changes in customer demand. The financial services industry is a mature industry with knowledgeable customers. Customers have become selective in their choice of products offered by banks and insurance companies. They are no longer customers for life and will not automatically accept what their bank can deliver. They are prepared to shop around for the best deals and have become familiar with fairly complex financial products. The strong growth in the number of people actively managing their own equities portfolio is a perfect example of this.

The products financial institutions deliver have become commodities that are easily comparable. Moreover, there are now intermediaries who help customers evaluate proposals in order to get the best deals from the financial institutions. This means that a product, as such, is no longer the basis for competition but rather service, and the possibilities of tailoring products to customer needs are increasingly important.

Survey Results

To assess what the main competitive factors for the future would be, the participants were asked to select the three most important factors of competitive advantage. Table 1 gives the ranking; the percentage indicates how many interviewees selected the factor as one of the three most important.

[illegible]

If these are indeed the factors that competition will be based on in the future, current financial services institutions will face some fierce competition. It is clear that current institutions are strong on the aspects ranked fourth and fifth: they have built up trust over many years and have refined their product offerings. However, as the survey shows, these factors may not provide a winning combination for the next century. The ability to tailor products to the individual whilst increasing accessibility needs to be developed in many organisations. Several new entrants are already outperforming the 'old' players in these areas and, in addition, often charging lower prices (take for example E*Trade). According to a Booz*Allen & Hamilton analysis, online brokers are 2 to 3 times more cost-effective than discount brokers and as much as 8 to 10 times more cost-effective than traditional full-service brokers. Online brokers' transaction costs vary from US$15 to US$20 (for buying 500 listed shares at US$lO), compared to costs of US$60 to US$90 at discount brokers and US$160 to US$175 at full-service firms.

Speaking of accessibility, it is interesting to see how important it is to customers of different ages. Older customers, who are used to going to branch offices and who are not accustomed to new technology, may not wish to change the way they bank. Using the Internet or telephone, in many cases, does not appeal to them. Younger customers however are using the Internet as a normal business tool and many do not like to wait in a queue at the bank. Moreover they are unable to visit their bank on a regular basis unlike the older generation where one of the partners is not working and therefore has the time to visit the bank. Research undertaken by Wells Fargo indicates the differences in access preferences of different age groups relating to 24 hour availability (see Table 2).

TABLE 2

Access preferences by age group

(Source: Wells Fargo)

age group	*% requiring 24 hour availability*
18-34	82%
35-49	64%
50-64	40%
65+	24%

It is clear that developing new channels that provide 24 hour access means less for the older generation, but that it is absolutely necessary in order to attract the younger generation. Some new players seem to understand this better than the established ones. The decision to develop new channels is harder for institutions that have invested heavily in existing branch networks. The development of new channels should reduce the workload in the branches and result in the closure of branches. Closing branches is unpopular resulting in delays in decision making.

This poses a real threat to the development of new channels that will attract the younger generation. The advantages of being the first to introduce well-designed Internet-based products are huge. By employing l-to-l marketing and developing relationships with their customers, new entrants are less likely to lose them to their competitors. This could mean that the 'old' players would not be able to include the younger generation in their client base. This is a frightening prospect as Internet-based providers can relatively easily broaden their geographical base: the Internet distribution channel they use is already available world-wide. In the US new well-developed entrants deliver high quality service at a low cost and are therefore in the position to break through into the European market. This is likely to happen within months rather than years.

CONCLUSION

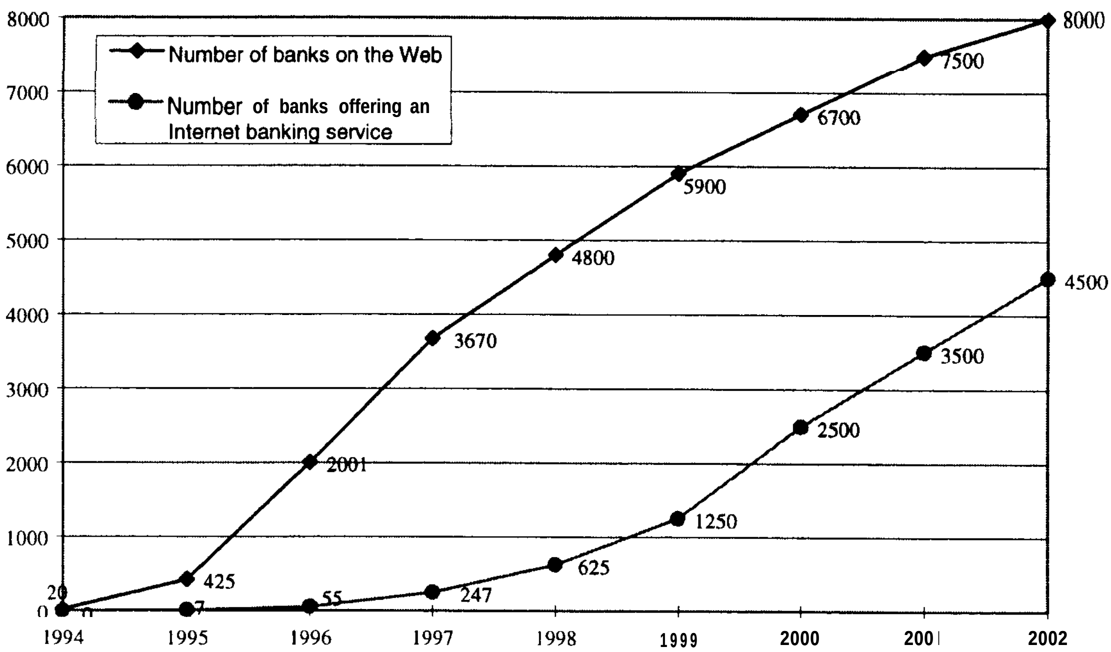
Changes in customer demands require traditional players to react quickly. Whilst they may be hampered by existing investments in distribution channels they must invest in new channels in order to attract new customers. The advantage of being the first Internet-based financial services provider is that large numbers of new customers will be acquired and they will remain loyal.■

DISTRIBUTION CHANNELS

CHANGES IN DISTRIBUTION CHANNELS are already altering the way in which financial services are delivered to customers. The most important new channel is **the** Internet that has already introduced major changes in the delivery of some products, for example, brokerage.

This seems to be only the beginning. According to a Booz*Allen & Hamilton Internet Banking study, the number of households using Internet banking was 0.1 million in 1996 and is projected to rise to over 16 million by the end of the year 2000, in the US alone. Hence the number of users will grow rapidly in the years to come as will the number of banks that have an Internet presence. As outlined in the Online Banking Report, there were 3670 banks on the Web at the end of 1997, and it is expected that 8000 banks will be present on the Internet by the end of 2002. Although only 247 banks offered an Internet banking service at the end of 1997, this number is bound to grow, spectacularly, to a projected 4500 banks by the end of 2002 (see Figure 1).

FIGURE 1 - HOW MANY ONLINE?



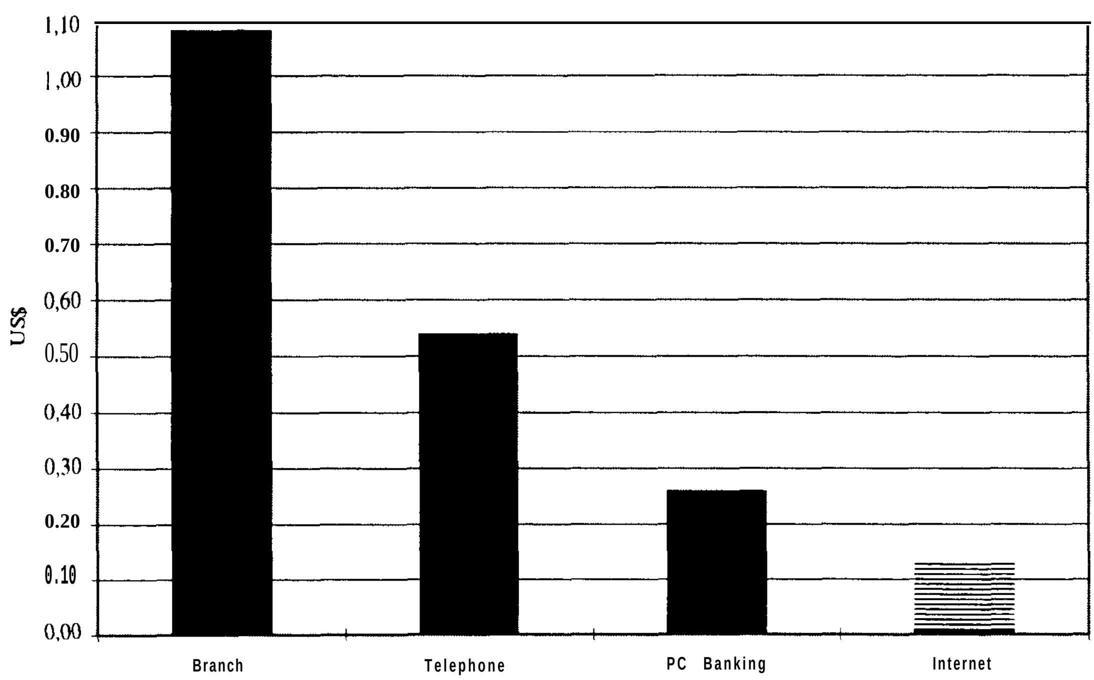
Source: Online Banking Report

Using the Internet for the distribution of services seems to create a multitude of advantages for both customers and the financial institutions. Whilst Internet banking for customers means ease of use and high availability, for financial institutions it can bring direct cost savings. Booz*Allen & Hamilton estimates the cost per transaction on the Internet to be US$O. 13 versus US$1.08 for a branch, US$0.54 by telephone **and** US$0.26 for a PC banking service. Jupiter Communications even estimates the transaction cost of the Internet to be as low as 1 cent (see Figure 2).

This means that every transaction executed over the Internet results in a direct cost saving from the moment the Web site is operational. Currently, according to the participants in the survey, there are hardly any financial services institutions that provide Internet banking.

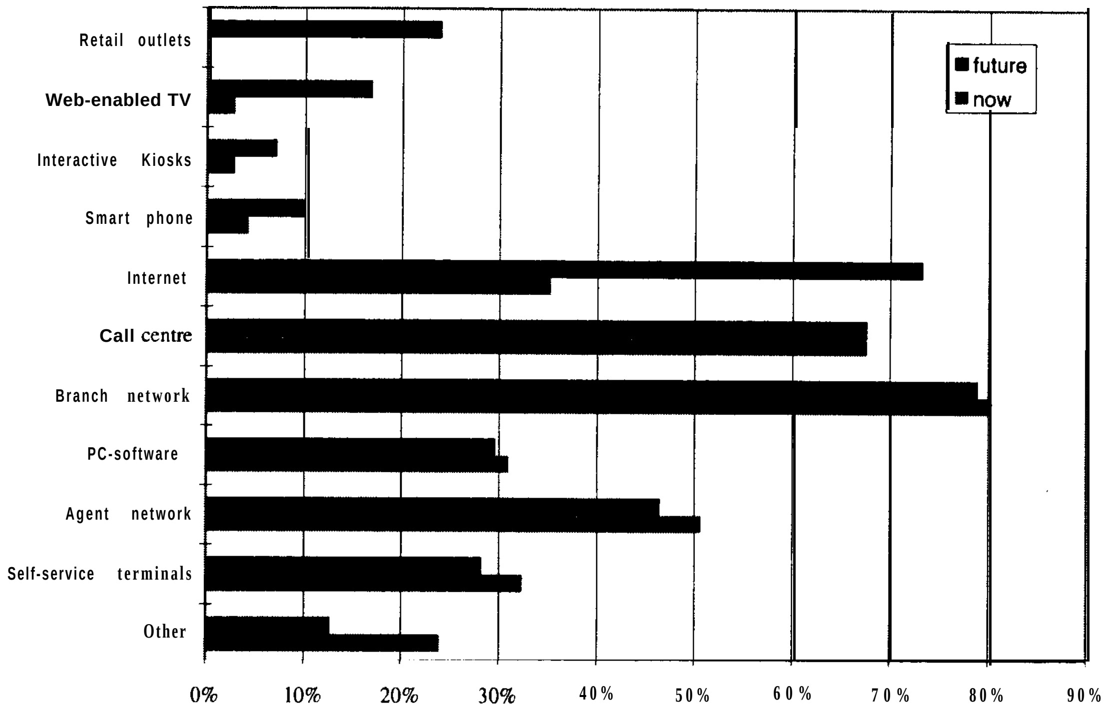
Internet-based brokerage seems to be at the forefront of Internet financial services. Forrester Research estimates that the number of online accounts has doubled during the past year to 3 million, this group collectively entrusting US$ 120 billion to Internet-based brokers such as Ameritrade and E*Trade. Forrester projects that within five years, more than 14 million investors will have nearly US$ 688 billion managed across cyberspace. This indicates that Internet banking is growing fast and becoming a major part of the entire business.

FIGURE 2 - COST PER TRANSACTION OF DIFFERENT CHANNELS



Sources: Booz*Allen & Hamilton, Jupiter Communications

FIGURE 3 - DISTRIBUTION CHANNELS - CHANGES IN IMPORTANCE



Source: Cap Gemini I Vrije Universiteit

SURVEY RESULTS

Participants were asked which were the **three** most important distribution channels now and which channels did they expect to be important in the future. Figure 3 shows the distribution channels' changes in importance. Ranking **is** based on the relative improvement of the channel using the current situation as a benchmark.

It is clear that the Internet is becoming an important channel: more than 70% of the survey participants believe that it will be one of the three most important channels. There are some other very interesting findings. In the first place, the overall view indicates that the number of distribution channels employed by financial institutions is growing. This means that complexity and cost levels are rising, creating opportunities for new entrants that employ less channels and deliver at lower prices. A prime example is Intemet-brokerages that do not have the cost level of branch networks. It is intriguing to see that most branch networks will remain: financial institutions appear to obtain added value from these networks.

According to the participants channels that will flourish are those that will improve the accessibility of the financial services institutions. This is the second most important factor for the future (see previous chapter). Off-site banking, provided through kiosks and outlets, belonging to non-financial organisations, are seen as the way to reach the customer. Whether these physical channels will succeed in reaching all customers is questionable. Keeping the data of the previous chapter in mind, the younger generation might prefer the electronic distribution channels such as the Internet and interactive television, channels that are always available and that meet their business needs. The older generation might value the kiosks and retail outlets which they regularly visit and which are easily accessible.

CONCLUSION

Over the next few years the number of distribution channels operated by financial services institutions will grow. New physical as well as virtual channels will be developed. These channels may differ in terms of the customer groups they attract. The deployment of multiple channels may raise the cost level of distribution creating opportunities for new providers. This will be discussed in the next chapter.■

COMPETITION

UNTIL RECENTLY, THE FINANCIAL services industry could be divided into a number of segments. Banks, insurance companies, mutual funds and brokerage firms competed within the boundaries of their own sectors. However, these boundaries are fading. The traditional financial services sectors are competing more and more within the same markets and offering similar products.

Gradual liberalisation and a greater transparency of the markets, together with the collapse of significant entry barriers, have facilitated the entry of non-traditional financial services providers. Compared with many existing players, these new entrants have operated from the outset with a lower cost base and state-of-the-art technology. The traditional barriers to entry have been reduced due to new entrants' ability to:

- exploit economies of scale, by utilising existing distribution channels;
- utilise the power of existing corporate brand names and brand strength images;
- 'cherry-pick' the most profitable product lines and offer products that are relatively easy to tailor to the current needs of the market;
- target customers cost-effectively.

The relative ease of entry of non-traditional players is facilitated by the low cost to buyers of switching from one supplier to another.

Traditionally, banks have acted as highly integrated, full-service providers, developing, manufacturing and distributing their own products exclusively. The increasing competitive and economic demands faced by banks will make the ability to fulfil this traditional role more and more difficult. Many new entrants into the financial services industry are not aiming to offer a full range of financial services, but are, instead, positioning themselves as specialised providers. In general, there are two groups of specialised providers: one focusing on a specific customer segment and the other focusing on a specific transaction category.

The goal of the first category of new players is to develop a trust-based relationship with their customers in order to help them to obtain a wide range of financial services. They need to focus on the acquisition and management of customer relationships. In essence, they are becoming a new form of intermediary that separates the customer relationship management element of the retail banking business from the product manufacturing and processing elements. Their distinctive value proposition is to develop a deep understanding of specific customer's needs and to provide access to the best mix of financial services from a multitude of 'manufacturers (banks and other providers).

The second category of new players is targeting individual product categories within financial services and is seeking to become the preferred agent for buying and selling them. Rather than trying to own customers by providing a full range of products to meet their financial needs, these players want to own specific types of transaction, such as mutual fund sales or insurance policy purchases. They are aggregating buyers and sellers for these transactions in tailored environments that support the needs of both.

The impact of new competition is that the overall profitability of the sector will decline. There will be considerable pressure to contain costs and to keep prices as low as possible. This could result in moves towards concentration in the industry through mergers and joint ventures. In fact this is already happening as we have seen with recent mergers of major financial institutions in both the US and Europe. In addition, financial institutions will try to find alternative sources of profitable revenue-products and services with high volume and high margin. Traditional players may experience considerable pressure, as they lose market share to new, more competitive entrants.

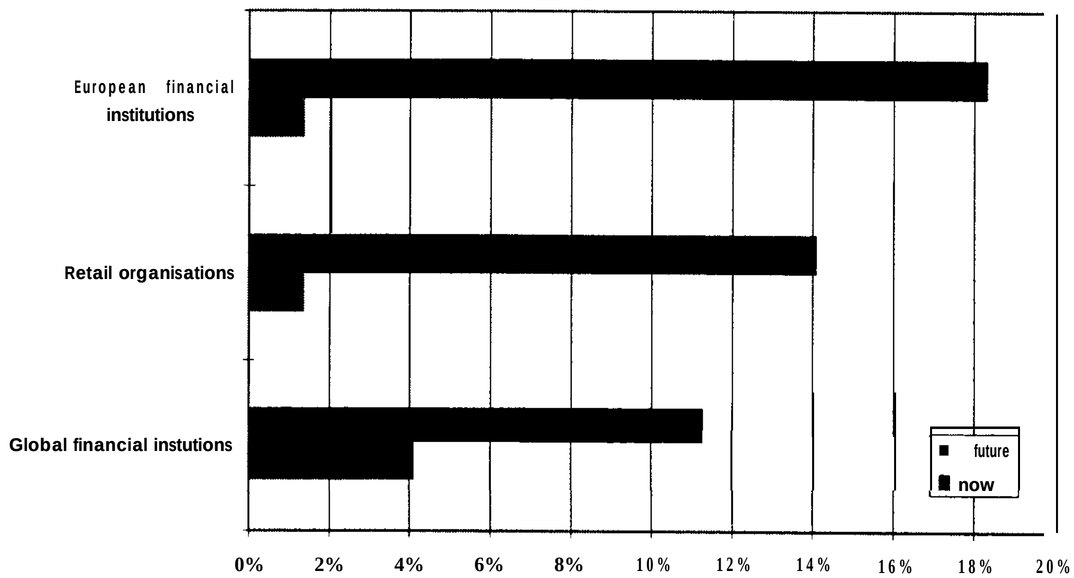
SURVEY RESULTS

Figure 4 shows how the competition will increase according to the participants-in addition to competition from local financial institutions.

The increase in competition from European financial institutions is partly due to the introduction of a more uniform European market. The introduction of the euro will place all financial services institutions in a single European market. It will become easier to compete in regions that previously had different currencies.

Retail organisations are seen as important new competitors. They are easily accessible (e.g. supermarkets) and the cost of this distribution channel is marginal. Furthermore, the retailer's

FIGURE 4 - INCREASE IN COMPETITION



Source: Cap Gemini / **Vrije Universiteit** customer contact and experience in customer payments gives them a real opportunity to break into the financial sector.

[illegible]

These barriers to entry may not be too high for organisations pursuing entry into the financial services industry. With regard to trust, on one hand, existing organisations already own a brand name and trust which they can deploy whilst establishing themselves as a new player in financial services. On the other hand, building a brand and trust in the Internet economy can be attained fairly fast. Electronic brokerages-E*Trade, Ameritrade and Datek provide clear examples of brand names that did not exist a few years ago but that are now trusted by a large number of customers: as of September 1997, E*Trade had more than 225,000 accounts and US$ 7.7 billion customer assets under management, according to the firm's Annual Report-a growth of 213 percent and 196 percent respectively, compared to 1996. Only six months later the number of accounts had already grown to 325,000, Fortune magazine reported.

Investments in ICT infrastructure may not be too high if new technology is used in the production of services, and the Internet, which has been paid for already, is used as the distribution channel to deliver these services. Research shows that initial investment, for these new entrants, is low. It costs only US$ 1 to US$ 2 million to create a fully functional, though simple, Internet banking site (more advanced Internet banking sites can cost firms from US$ 5.1 million up to US$ 23.1 million, according to Fort-ester).

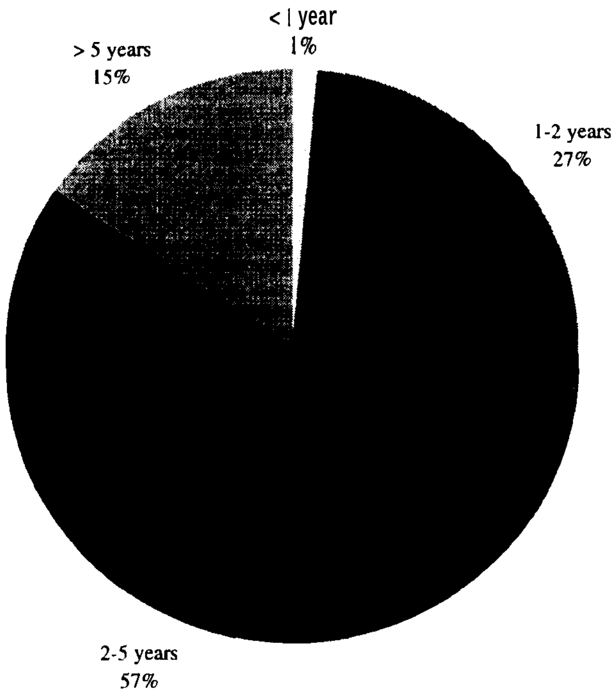
The third barrier to entry, the development of an appealing service/product range, may reflect the traditional thinking of financial services. In many cases new entrants attempt to attract customers prior to developing a portfolio of services. They start as 'one-product' companies, focusing on delivering a high quality, inexpensive, easily accessible product with a view to developing new products later on.

Taken into account that barriers to entry are not as high as many people would think, it is interesting to note when the participants expect the new entrants to become serious players. Whilst 58% of participants believe that new entrants can enter the market within 2 years, 72% think it will take new entrants two to five years or even longer to become a serious competitive threat (see Figure 5). It might well be that the new single-product companies manage to be successful in a much shorter time period, because they do not face trade-offs and can concentrate on providing optimal solutions for a single value.

Conclusion

Financial services competition will definitely increase. The barriers to entry are lowered, making it possible for many parties to enter the market. Starting as single-product companies, new entrants are able to provide a superior offer in order to attract customers. Once the customers are on board, they can then broaden their product range in order to entice business away from existing financial institutions.■

FIGURE 5 - HOW LONG WILL IT TAKE NEW PLAYERS TO BECOME A SERIOUS COMPETITIVE THREAT?



Source: Cap Gemini / Vrije Universiteit

Organisational Change

Organisations must change in response to developments in the marketplace. All aspects of the organisation may be subject to change due to new services and distribution channels. In order to deliver products through the Internet, financial services institutions may come up against a number of problems.

Firstly, the production processes that interact with customers need to be redesigned in order to provide a real-time response. These processes need to be immediate: if a customer begins a transaction or requests a quote, he expects a direct answer. Due to manual steps in the process or the employment of batch processing, this is often not the case.

Batch processing leads to other problems. Online systems are often stopped at night to enable the processing of batches. Web sites, which are open 24 hours a day, are used mainly by customers during the night. Therefore systems will need to be enhanced in order to make them available around the clock.

The implementation of new distribution channels often requires revision of products. Financial services, in many cases, have a very broad product range that can only be understood by the account managers. However, customers that use interactive distribution channels want to make their own decisions and purchases. This means that products have to be restructured into component parts so that customers can choose for themselves.

Survey Results

Participants were asked what they thought would be the major obstacles to the implementation of necessary change. These are summarised in order of importance in Table 4.

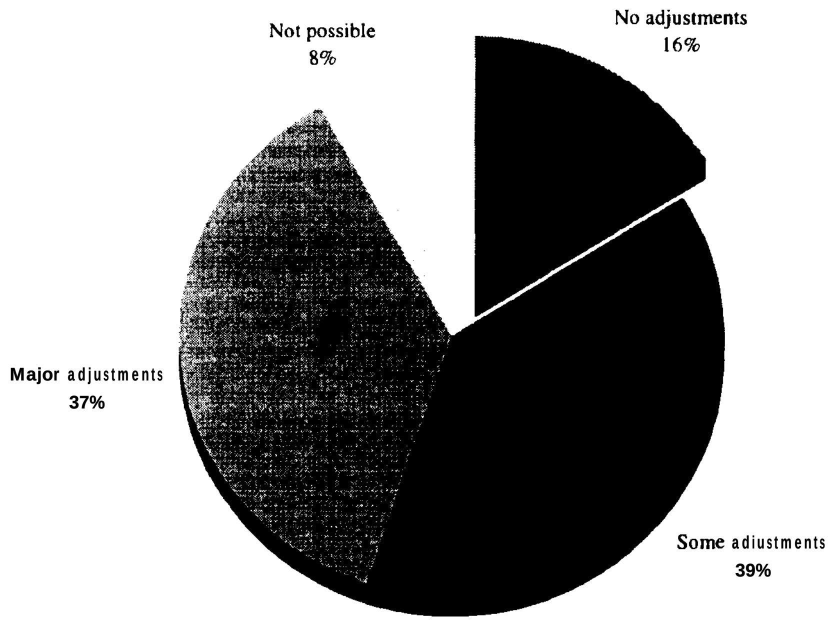
[illegible]

Transformation of the organisation requires a broad understanding of all organisational change. This is clearly a major obstacle for many organisations. Their traditional organisational culture, of branch distribution channels and corresponding personnel, makes it hard for them to change. New entrants can freely restructure their companies in order to take advantage of new opportunities, as they arise, creating serious threats to traditional organisations.

The ICT infrastructure is the legacy information system hampering introduction of new products and the implementation of new distribution

FIGURE 6 - ADJUSTMENTS TO EXISTING ICT INFRASTRUCTURE, NECESSARY FOR FUTURE

FINANCIAL SERVICE OFFERINGS



Source: Cap Gemini / Vrije Universiteit

channels. A lack of resources due to Y2K and euro adds to this problem. In order to overcome this problem, it is often necessary to make adjustments to the existing ICT infrastructure. When the participants were asked whether they could base their future financial service offering on their existing ICT infrastructure, 76 percent answered that this will only be possible with adjustments, whilst 8 percent think it will not be possible at all, as Figure 6 shows.

The participants were also asked how long they thought it would take to implement the necessary changes. Table 5 summarises the results.

[illegible]

[illegible]

[illegible]

[illegible]

The results indicate that the majority expect to be able to implement new distribution channels fairly rapidly. To adapt their services to address new demands and exploit new possibilities may take longer. Whether this can happen soon enough is in doubt. A survey of the Tower Group indicates that the larger banks will be the earliest adopters of full service Internet banking. They expect that 90% of the larger European banks will offer full service Internet-based access by 2001. A survey by Gartner shows that the large US banks will provide these services in 1999 and may well use these services to penetrate the European market.

CONCLUSION

Organisational change will prove to be the major challenge for existing financial institutions. Rapid implementation of change is needed in order to avoid losing market share to new entrants and US financial institutions penetrating the market.■

FINAL CONCLUSION

ONE THING IS CLEAR: THE FINANCIAL SERVICES INDUSTRY IS ON THE BRINK OF A NEW ERA. Changes are underway to redefine the entire industry. Globalisation, the emergence of new distribution channels, and changing customer preferences are just a few of the ways in which finance will be reshaped. New positions will be established, new players will emerge and existing organisations are likely to decline.

Traditional players may lose market share to more competitive entrants. On the one side, new 'one-product shops' are attractive to customers. By using new production technologies and distribution channels such as the Internet and call centres, they are able to deliver high quality service at a lower cost. This electronic way of doing business may not appeal to all customers but it definitely appeals to a growing number of younger customers. Therefore, this sector will grow fast in the future.

On the other side, financial institutions are subject to competition from non-financial organisations. Due to the fact that customers view financial services more and more as commodities, status and trust are no longer the only attributes a customer values most. Accessibility seems likely to be one of the main factors of the future. As customers perceive financial services as a facilitator for other purposes, like buying a car or food, financial institutions may become mere suppliers to those organisations that have more customer contact.

The traditional players must adapt to the changing circumstances. Even more, these changes must be implemented fast. Due to the use of the Internet, competitors already have a global distribution network and can easily enter new markets. The main inhibitor to change would seem to be the changes in organisational structure and culture and the renewal of information systems. As these processes mostly take years, there is not much time left.

There are abundant opportunities for those who understand and can implement the necessary changes. Every financial institution must reinvent itself in order to find a place in this new industry. We are about to experience a transformation that the financial services industry has not experienced before...

It's the business of the future to be dangerous
A. N. Whitehead

APPENDIX: SURVEY RESULTS

All 71 participants are General Managers or IT Managers of financial institutions. Participants represent the following countries: Netherlands, Belgium, France, Germany, Norway, Sweden, United Kingdom, Spain.

[redacted]

RESULTS

The overall survey results are as follows. In the case of multiple response questions (1=most important, 2=2nd most important, 3=3rd most important, 4=4th most important) all answers are valued equal.

1.
Which geographic market(s) does your organisation focus on? (indicate one or more)

a.	Local market	76%
b.	Euro market	34%
c.	Global market	28%

2.
What is your company's approach to the market? (indicate one or more)

a.	Mass marketing	43%
b.	Targeted marketing	57%
c.	Relationship marketing	61%
d.	Affinity group marketing	34%

3.
Which of the following activities do you count as your organisation's core competence? (indicate 3 maximum)

a.	Asset management: savings, investments	61%
b.	Property and Casualty insurance	21%
c.	Life insurance	48%
d.	Income insurance and pensions	30%
e.	Payment services	48%
f.	Credit and loans	61%
g.	Information services	10%
h.	Non-financial services (e.g. travel)	3%

4.
Rank your organisation's four most important distribution and/or service channels now?

(1=most important, 2=2nd most important, 3=3rd most important, 4=4th most important)

a.	Branch network	80%
b.	Agent network	51%
c.	Call centre/telephone/fax	68%
d.	Smart phone/cellular phone (SMS)	4%
e.	Internet	35%
f.	Kiosks	3%
g.	Web-enabled TV	3%
h.	Self-service terminals	32%
i.	PC/home-banking software	31%
j.	Other	24%

5.
If your organisation currently uses more than one distribution and/or service channel (per brand) how would you describe the level of integration?

a.	Full integration	18%
b.	Partial integration but no integrated market penetration	62%
c.	No integration	7%
d.	Not applicable	13%

6.
Rank your three current main competitors in the local market?
(1 =most important, 2=2nd most important, 3=3rd most important)

a.	Local banks	93%
b.	Local insurance companies	52%
c.	Other local financial institutions	54%
d.	European financial institutions	24%
e.	Global financial institutions	34%
f.	Retail organisations	16%
g.	Other	8%

7.
How much of your current investment in information and communication technology is budgeted to maintain and support the existing information and communication technology infrastructure (including euro and adjustments)?

a.	More than 90%	10%
b.	Between 75% and 90%	35%
c.	Between 50% and 75%	55%

8.
Statement: In the near future two concepts will remain: relationship marketing &distribution (fully customised/tailored service offering per individual) and product standardisation.

a.	I agree	82%
b.	I do not agree	18%

9.
If you agree with the previous statement, which concept will your organisation choose?

a.	Relationship marketing & distribution	34%
b.	Product marketing & distribution	7%
c.	Both	59%

10.
Which of the following activities do you think your organisation will focus on in the network economy? (maximum of three answers)

a.	Asset management: savings, investments	61%
b.	Property and Casualty insurance	18%
c.	Life insurance	41%
d.	Income insurance and pensions	24%
e.	Payment services	48%
f.	Credit and loans	55%
g.	Information services	24%
h.	Non-financial services (e.g. travel)	11%

11.
Statement: The ability of a financial institution to offer a full range of financial products and services in the future is of crucial importance to its success.

a.	I agree	68%
b.	I do no agree	32%

12.
What do you expect to be the four most important distribution and/or service channels in the future?
(1 =most important, 2=2nd most important, 3=3rd most important, 4=4th most important)

a.	Own branch network	79%
b.	Retail outlets of non-tinancial institutions	24%
c.	Agent network	46%
d.	Call centre/telephone/fax	68%
e.	Smart phone/cellular phone (SMS)	10%
f.	Internet	73%
g.	Kiosks	7%
h.	Web-enabled TV	17%
i.	Self-service terminals	28%
j.	PC/home-banking software	30%
k.	Other	13%

13.
Statement: Many financial institutions are on the Internet but do not provide a transaction service via this medium.

a. 1 agree 92%
b. I do not agree 8%

14.
If you agree with the previous statement, when do you expect the Internet to be an important distribution and/or service channel for your organisation in the future. How long will it take the Internet-economy to achieve a level that would jeopardise your organisation's competitiveness if it were not participating?

a.	Less than a year	11%
b.	One to two years	20%
c.	Two to four years	41%
d.	More than four years	28%

15.
When do you expect security surrounding Internet transactions to achieve an acceptable level for financial service transactions in your country?

a.	Within 6 months	17%
b.	Within one year	19%
c.	Between one to two years	39%
d.	More than two years	17%
e.	Transactions are already accepted as secure	8%

16.
How long will it take your organisation to redesign its operation to allow the introduction of new distribution and/or service channels?

a.	Less than one year	29%
b.	Less than two years	42%
c.	Two to five years	29%
d.	More than five years	0%

17.
Statement: Critical success factors, for financial services distribution in the network economy, are a clear multi-channel strategy and integrated architecture.

a.	I agree	86%
b.	I do not agree	14%

18.

If you agree with the previous statement, what do you consider to be the three most important obstacles to compliance with these critical success factors? (1=most important, 2=2nd most important, 3=3rd most important)

a.	Corporate strategy and decision making process	48%
b.	Transformation of the current organisation	79%
c.	Information and communication technology infrastructure	77%
d.	Lack of resources due to Y2K and euro projects	79%
e.	Other (external) factors	7%

19.

Statement: 'Branding' of financial services in a transparent network economy is of vital importance to the attraction and retention of customers. Which of these two strategies do you prefer?

a.	Multiple branding to target various product/market combinations	42%
b.	Development of one global (umbrella) brand	45%
c.	I do not agree with the statement	13%

20.

What do you estimate the cost of introducing a new financial brand to the local market to be?

a.	Less than $US 10m	34%
b.	Between $US 10-25m	37%
c.	More than $US 25m	29%

21.

Which organisations, do you believe, will constitute the biggest competitive threat in the near future? (1=most important, 2=2nd most important, 3=3rd most important)

a.	Local banks, insurance companies, other financial institutions	73%
b.	European financial institutions	66%
c.	Global financial institutions	41%
d.	Retail organisations	61%
e.	Telcos	18%
f.	IT-organisations	18%
g.	Automotive/aerospace	7%
h.	Other	6%

22.

What, in your opinion, will offer competitive advantage for financial services providers in the future? (1=most important, 2=2nd most important, 3=3rd most important)

a.	Detail and depth of the financial services product portfolio	38%
b.	Combinations of financial and non-financial services	35%
c.	Ability to tailor financial services to the individual	75%
d.	Accessibility/availability (anytime, anywhere, anyhow)	68%
e.	Branding	44%
f.	Pricing/rates	50%

23.

Which of the following activities do you expect new market players to focus on? (select a maximum of three)

a. Asset management: savings, investments 77%
b. Property and Casualty insurance 17%
c. Life insurance 46%
d. Income insurance and pensions 41%
e. Payment services 20%
f. Credit and loans 32%
g. Information services 35%
h. Non-financial services (e.g. travel) 7%

24.
How fast do you think a new entrant will be able to implement a distribution-organisation and an information and communication infrastructure for financial services from scratch?

a. Less than 6 months 3%
b. Within one year 13%
c. One to two years 42%
d. More than two years 39%
e. Will not succeed 3%

25.
What are the major barriers to entry into the local financial market for new players?

a. Information and communication technology infrastructure 30%
b. Development of an appealing service concept/product range 25%
c. Development of a brand name and trust 72%
d. Regulatory authorisation 18%
e. Other 6%

26.
How long will it take new players to become a serious competitive threat?

a. Less than one year 1%
b. One to two years 27%
c. Two to five years 57%
d. More than five years 15%

27.
Statement: Only those financial institutions that succeed in forging alliances with other financial institutions or non-financial institutions will be able to compete successfully in the electronic marketplace.

a. I agree 59%
b. I do not agree 41%

28.

If you agree with the previous statement, which organisations will financial institutions favour making alliances with? (indicate one or more)

a.	Banks	55%
b.	Insurance companies	40%
c.	Other financial institutions	31%
d.	Retail organisations	55%
e.	Telcos	29%
f.	IT-organisations	36%
g.	Automotive/aerospace	2%
h.	Other	2%

29.

How long will it take your organisation to adapt to the network economy, i.e. to adjust its services?

a.	Less than a year	11%
b.	One to two years	34%
c.	Two to four years	52%
d.	More than four years	3%

30.

What do you consider to be the three most important obstacles in adjusting your services to the network economy? (1 =most important, 2=2nd most important, 3=3rd most important)

a.	Corporate strategy and decision making process	41%
b.	Transformation of the current organisation	14%
c.	Information and communication technology infrastructure	55%
d.	Lack of resources due to Y2K and euro projects	48%
e.	Positioning/image/branding of the organisation	19%
f.	Multiple labels/multi-channel distribution	17%
g.	Knowledge/skills/experience within the organisation	39%
h.	Other (external) factors	3%

31.

Is it possible to base your future financial service offering on your existing information and communication technology infrastructure?

a.	Yes	16%
b.	Yes, with some adjustments	39%
c.	Yes, with major adjustments	37%
d.	No	8%